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June 5, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
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Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy Watanabe*
Acting Auditor-Controller

SUBJECT: **PROTOTYPES, CENTERS FOR INNOVATION IN HEALTH, MENTAL
HEALTH AND SOCIAL SERVICES – A DEPARTMENT OF PUBLIC
HEALTH HIV/AIDS PREVENTIVE CARE SERVICE PROVIDER**

We completed a fiscal review of Prototypes, Centers for Innovation in Health, Mental Health and Social Services (Prototypes or Agency), a Department of Public Health (DPH) HIV/AIDS preventive care service provider.

Background

The DPH's Office of AIDS Programs and Policy (OAPP) contracts with Prototypes to provide HIV/AIDS mental health, substance abuse/residential rehabilitation, women's early intervention services, health education/risk reduction outreach and training services. Prototypes is located in the Second District.

At the time of our review, Prototypes had five contracts with OAPP. The County paid Prototypes \$297,223 for two fixed-fee contracts and \$961,654 for three cost reimbursement contracts. Both types of contracts required the Agency to comply with Office of Management and Budget (OMB) Circular A-122, Ryan White Comprehensive AIDS Resource Emergency Act (CARE Act) and other federal and State program requirements.

Purpose/Methodology

The purpose of our review was to ensure that Prototypes appropriately charged OAPP for services provided in accordance with the County contract. We also evaluated the adequacy of Prototypes accounting records, internal controls and compliance with the contract and applicable federal and State fiscal guidelines governing the CARE Act. In addition, we determined whether the Agency provided services to eligible participants.

Results of Review

Prototypes appropriately charged payroll expenditures to the OAPP program. However, Prototypes needs to ensure that OAPP funds are appropriately used for program related activities and their business transactions are accurately recorded. For example:

- Prototypes did not maintain documentation to support \$908,000 in reconciling items listed on their bank reconciliation. In addition, the bank reconciliation was not reviewed and approved.
- Prototypes did not maintain documentation to support \$128,019 (62%) of the \$204,835 expenditures reviewed. The expenditures related to the Agency's cost reimbursement contracts.
- Prototypes' accounting records did not support \$1,220 in program expenditures reported on their cost reimbursement contracts' cost reports.
- Prototypes' client in-take procedures did not adequately document the screening for Medi-Cal, private medical insurance and other public sector funding or whether clients met the income requirement for services received.

The details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Prototypes on January 31, 2008 and conducted a follow-up meeting on March 14, 2008. During both meetings, we provided Prototypes with additional clarification on the unsupported and inadequately documented expenditures. We allowed Prototypes several opportunities to provide the additional documentation and in instances in which the Agency provided appropriate documentation, we adjusted our report accordingly. In their attached response, Prototypes indicated that they are still gathering documentation to support the \$128,019 undocumented expenditures and that they will provide it to OAPP by June 1, 2008.

In addition, Prototypes indicated that that all OAPP funded programs use a client fee determination system that is reviewed and approved by OAPP. However, the Agency did not provide documentation of their current client fee determination system.

We notified OAPP of the results of our review. We will follow-up our recommendations within six months. We thank Prototypes for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, Director, Public Health Department
Cassandra Loch, President/Chief Executive Officer, Prototypes
Maryann Fraser, Executive Vice President, Prototypes
Public Information Office
Audit Committee

**HIV/AIDS PREVENTIVE CARE SERVICE
PROTOTYPES, CENTERS FOR INNOVATION IN HEALTH, MENTAL HEALTH AND
SOCIAL SERVICES
FISCAL YEAR 2006-2007**

ELIGIBILITY

Objective

Determine whether Prototypes, Centers for Innovation in Health, Mental Health and Social Services (Prototypes or Agency) provided services to individuals that meet the eligibility requirements of the Office of AIDS Programs and Policy (OAPP).

Verification

We reviewed the case files for 24 (18%) of 131 program participants that received services during May and June 2006 for documentation to confirm their eligibility for OAPP services.

Results

The case files for five (21%) program participants did not contain documentation to support their eligibility for program services. In addition, the case files did not document whether Prototypes screened the participants for other third party payers prior to billing the services to OAPP. The contract requires OAPP funds to be used only for services that cannot be paid for by other sources. Providers must document in the clients' files that program participants have been screened for Medi-Cal, private medical insurance and other public sector funding. Clients are eligible for services after a financial screening has been completed validating that OAPP funds are the payer of last resort.

Recommendations

Prototypes management:

- 1. Ensure that Agency staff obtain appropriate documentation from clients/participants to determine the participants' eligibility for program services.**
- 2. Ensure that client files document that clients are screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Prototypes' personnel and reviewed their financial records. We also reviewed the Agency's May 2006 bank reconciliation.

Results

Prototypes appropriately recorded and deposited cash receipts timely. However, the Agency needs to improve their controls over cash. Specifically, Prototypes did not:

- Properly reconcile its bank account. The bank reconciliation for May 2006 included approximately \$908,000 in reconciling adjustments that were not supported and the Agency was unable to explain the nature of the adjustments. In addition, the ending cash balance did not agree to the general ledger. The Agency indicated that this was due to an error. Subsequent to our review, Prototypes corrected the error.
- Complete their bank reconciliations within 30 days of the bank statement date or signed by the preparer or reviewer.
- Update their client fee schedule to reflect changes in the federal poverty income levels. Their client fee schedule has not been updated since 2001.
- Document instances where the Agency waived participants paying fees, as required by the contract.

Recommendations**Prototypes management:**

3. **Resolve reconciling items timely and maintain supporting documentation for all transactions listed on bank reconciliations.**
4. **Ensure that the Agency's accounting records support the ending cash balances.**
5. **Ensure bank reconciliations are prepared timely and signed and dated by preparer and reviewed by management.**

6. **Establish and implement a current client/patient fee determination system and ensure that it is reviewed and approved by OAPP.**
7. **Ensure the Agency's client fee schedule is regularly updated to reflect changes in federal poverty income levels.**
8. **Require staff to document instances where client fees have been waived.**

EXPENDITURES

Objective

Determine whether program expenditures are allowable under the County contract, properly documented and accurately billed to the program.

Verification

We interviewed Agency personnel, reviewed accounting records and reviewed documentation for 50 expenditure transactions related to the cost reimbursement contracts during FY 2005-06, totaling \$204,835.

Results

Prototypes did not maintain appropriate documentation to support \$158,124 in program expenditures. In addition, Prototypes charged OAPP for unrelated and unallowable program costs. Specifically, Prototypes billed OAPP:

- \$139,751 for payments made to subcontractors that were not adequately documented. Prototypes did not provide documentation that identified the hours spent by the subcontractors on OAPP activities, the specific nature of the services received and the details of other subcontractors' charges. Prototypes management indicated that staff approved the payments based on a trust between Prototypes and the subcontractors.

In addition, Agency personnel indicated that the clients that received services from the subcontractors were covered by third-party payers. Therefore, the OAPP program should not have been billed.

- \$4,069 for payments made to a consultant. However, the Agency did not provide invoices or a service agreement to support the payments.
- \$14,301 for various operating costs including program incentives, educational materials, telephone, equipment maintenance, mileage, office supplies, postage and travel. However, the Agency did not provide documentation to support the expenditures.

Subsequent to our review, the Agency repaid OAPP \$28,386. Also, the Agency provided additional documentation to support \$1,716 of the undocumented costs described above. As a result, the unsupported and inadequately supported costs were reduced to \$128,019 (\$158,121 - \$28,386 - \$1,716).

Recommendations

Prototypes management:

9. **Repay DPH \$128,019 for unsupported and inadequately supported program expenditures related to the cost reimbursement contracts.**
10. **Maintain supporting documentation to support program expenditures.**
11. **Ensure that only those costs that are allowable, necessary, proper and reasonable in carrying out the purposes and activities of OAPP are charged to the program.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether the Agency's fixed assets and equipment purchases made with program funds are used for the program and are safeguarded.

We did not perform testwork in this section as the Agency did not charge OAPP any costs for the purchase of any fixed assets.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures are appropriately charged to OAPP. In addition, determine whether personnel files are maintained as required.

Verification

We traced payroll expenditures for eight (27%) of the 30 employees totaling \$16,251 in June 2006. We also reviewed the personnel files for eight employees assigned to the OAPP program.

Results

Prototypes appropriately charged payroll expenditures to the OAPP program. In addition, the Agency's personnel files were properly maintained.

Recommendations

There are no recommendations for this section.

COST ALLOCATION PLAN**Objective**

Determine whether Prototypes' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We reviewed a sample of expenditures incurred by the Agency from July 2005 to June 2006 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

Prototypes did not have a written Cost Allocation Plan. In addition, the Agency did not provide documentation of the methodology used to allocate the shared costs charged to OAPP. As a result, we could not determine whether the shared costs charged to the OAPP were appropriate. Subsequent to our review, the Agency provided a Cost Allocation Plan.

Recommendation

12. Prototypes management ensure a Cost Allocation Plan is prepared annually and expenditures are properly allocated based on the Agency's Cost Allocation Plan.

COST REPORTS**Objective**

Determine whether the Agency's cost reports reconcile to the Agency's financial accounting records.

Verification

We traced the Agency's general ledger to the Agency's cost reports submitted to OAPP for the five OAPP contracts reviewed. In addition, we reviewed a sample of expenditures incurred during December 2005, February 2006 and June 2006.

Results

Prototypes did not always prepare cost reports for each program or prepared them in accordance with the County contract. Specifically, Prototypes:

- Did not prepare two annual cost reports for its Training Services and Substance Abuse contracts by the required due date. Agencies are required to provide OAPP with annual cost reports within 30 days following the close of each contract period that identify actual revenue and expenditures.
- Overbilled OAPP \$1,220 related to the cost reimbursement contracts. The Agency acknowledged that some expenditures claimed for June 2006 were based on estimated costs and not actual costs incurred.

Recommendations**Prototypes management:**

- 13. Ensure annual Cost Reports for all OAPP contracts are prepared and submitted timely.**
- 14. Repay DPH \$1,220.**
- 15. Ensure that the expenditures charged to OAPP are supported and based on actual costs.**



CENTERS FOR INNOVATION IN
HEALTH, MENTAL HEALTH AND SOCIAL SERVICES

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May 1, 2008

Maria McGloin
Auditor Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Unit 51, Building A9 East
Alhambra, CA 91803-4737

Dear Maria:

We are responding to your report on the audit of PROTOTYPES for the Office of AIDS Programs and Policy (OAPP) for the fiscal year 2005-06. Though this audit took place over 18 months ago, because the results were not provided to us until just a few months ago, it has been a challenge to develop our response. Unfortunately the staff from your office who conducted the audit are no longer with your agency, and it has been difficult to understand the basis of some of their observations; similarly, the finance staff person for our organization who worked with the auditors is no longer employed by PROTOTYPES. We very much appreciate the time you have spent with us helping us to sort out and follow up on the audit report. Our response to the report is as follows:

1. Eligibility – Did clients served meet eligibility for OAPP services? Case files for 24 clients were reviewed. It was determined that case files for 5 clients did not contain documentation to support their eligibility.

We have determined that all of five of these cases involved individuals receiving mental health services in our WomensLink Program which was a program for women with HIV/AIDS. During the audit, the auditors brought the matter of insufficient financial documentation for 5 clients to the attention of our program staff. The program staff then screened these clients for Medi-Cal, private medical insurance and other public sector funding. All of the clients were determined to be eligible for OAPP services. Please be aware that the program which was the focus of this determination is no longer in

operation and the contract for the mental health services for women with HIV/AIDS services has ended.

We want to assure you that all of the remaining OAPP funded PROTOTYPES programs do obtain the appropriate documentation from clients to determine their eligibility for program services. We also want to assure you that all client files document that clients are screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate.

2. Cash/Revenue - Are cash receipts and revenue properly recorded in agency records? Concerns were expressed over cash controls in 2005-06.

It was determined that our bank reconciliation for May 2006 included reconciling adjustments for \$908,000 that were not supported. Our finance staff determined that there was an error in the bank reconciliation for May 2006 and they corrected the error. The person who prepared that reconciliation is no longer employed by PROTOTYPES.

We want to assure you that bank reconciliations are prepared in a timely manner and are signed and dated by the preparer and reviewer. We also want to assure you that we resolve reconciling items in a timely manner and maintain supporting documentation for all transactions listed on the bank reconciliations. Furthermore, we want to assure you that the agency's accounting records support the ending cash balances.

The auditors also determined that one OAPP funded program was using a client fee schedule that was 4 years old and therefore did not reflect changes in the federal poverty level. Furthermore, the auditors determined that one OAPP funded program did not document instances where the agency waived fees. Both of these issues occurred in the program which is no longer in operation, as discussed above. All of the remaining OAPP funded programs use a client fee determination system that is reviewed and approved by OAPP.

3. Expenditures – Are expenditures allowable, properly documented and accurately billed to OAPP?

The auditors determined that PROTOTYPES billed OAPP for payments to 2 subcontractors that were not adequately documented. Namely, the documentation that identified the hours spend by the contractors on OAPP activities, the nature of the services received, and the details of other subcontractors charges were not on site at PROTOTYPES' offices at the time of the audit. This documentation is kept at the site of the subcontractors, who are AIDS Health Care Foundation and Alta Med. This has been a practice accepted by OAPP for the many years that these subcontracts have been in effect and it has never been a concern in previous audits. The two subcontractors are gathering the documentation requested and it will be sent to you by June 1, 2008. The amount which needs to be substantiated by the subcontractors is \$128,019.

It was also determined that PROTOTYPES billed OAPP \$12,266 for various operating costs but that documentation to support these expenditures was not forthcoming during the audit. We are gathering that documentation and it will be sent to you next week.

It was further determined that PROTOTYPES billed OAPP \$4,069 for payments made to a consultant. Documentation was not furnished at the time of the audit. That documentation will be sent to you next week.

We want to assure you that PROTOTYPES and our subcontracting agencies do maintain supporting documentation and that only costs that are allowable, necessary, proper and reasonable in carrying out the purposes of OAPP funded program are charged to OAPP.

4. Fixed Assets and Equipment – Are agency fixed assets and equipment purchases made with program funds used for the program safeguarded and used for the program?

PROTOTYPES did not charge OAPP any costs for the purchase of fixed assets, as noted in your report.

5. Payroll and Personnel – Were payroll expenditures appropriately charged to OAPP and were personnel files maintained as required?

There were no concerns found in this area.

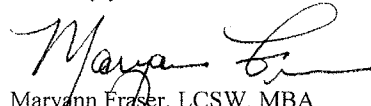
6. Cost Allocation Plan – Was a Cost Allocation Plan prepared in compliance with the County contracts and were program expenditures properly allocated?

The auditors were not provided with a cost allocation plan at the time of the audit. Subsequently, a copy of the Cost Allocation Plan was provided. We want to assure you that we are properly allocating expenses based on our Cost Allocation Plan.

7. Cost Reports – Did cost reports reconcile to our financial accounting records?

It was determined that PROTOTYPES was late in submitting two cost reports. We understand that cost reports must be submitted within 30 days following the close of the contract period for each contract and we are now submitting all cost reports by the deadline. It was further determined that we owe OAPP \$1,220 for expenditures that were overcharged in 2006 and that sum will be repaid to OAPP. We do ensure that expenditures charged to OAPP are supported and based on actual costs.

Sincerely yours,



Maryann Fraser, LCSW, MBA
Executive Vice President